UNITED
NATIONS

E

Economic and Social
Council

GENERAL

E/ECE/1205
2 February 1990

Original: ENGLISH

ECONOMIC COMMISSION FOR EUROPE

Forty-fifth session
(Provisional Agenda item 6)

DEVELOPMENT OF TRADE AND INDUSTRIAL CO-OPERATION

Note by the Executive Secretary

Introduction

1. The present Note contains a summary account of the development of intraregional trade and industrial co-operation, and of the main activities of the ECE in these fields, since the forty-fourth session of the Commission. Detailed information on these activities is provided in the Report of the Committee on the Development of Trade (ECE/TRADE/167) and in the reports of the other Principal Subsidiary Bodies of the Commission whose activities relate to this sector. Some aspects of intraregional trade and industrial co-operation are also discussed in the Report by the Executive Secretary on the Commission's activities and implementation of priorities in 1989 (E/ECE/1199).

Recent trends in the development of trade and industrial co-operation

2. After an unexpectedly strong performance in 1988, world output growth slowed in 1989 and for the year as a whole is likely to have averaged slightly more than 3%. The growth sustained the expansion of international trade in 1989 which is estimated to have grown by about 7.5%, or slightly less than the 8% increase in 1988.

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3. In contrast to the overall development of world trade, there was virtual stagnation in the trade of eastern Europe and the Soviet Union, mainly because of absolute declines in trade among the CMEA member countries and a fall in their exports to developing countries. Against this background, however, east-west trade continued to expand in 1989. In the first half of 1989, east European exports to the west slowed to 4%, from some 6% in 1988, and east European imports from the west rose strongly by some 13% in volume. Soviet trade with the west continued to expand rapidly in the first half of 1989. Soviet exports maintained a pace of 9% growth in volume while the growth of imports quickened to about 11%.

4. Western trade statistics show a somewhat more buoyant development of east-west interchanges than do the eastern data. Noting such discrepancies and referring to Commission decision C (44), the Committee on the Development of Trade, at its thirty-eighth session, "invited ECE at its next annual session to consider convening a joint meeting of experts with the Conference of European Statisticians to discuss disparities of foreign trade statistics and the improvement of international comparability of such statistics" (ECE/TRADE/167, para. 41).

5. Subsequent to the Joint Declaration on the establishment of official relations between the EEC and the CMEA which was signed on 25 June 1988, four bilateral agreements were signed between the EEC on the one hand and Hungary (26 September 1988), Czechoslovakia (19 December 1988), Poland (19 September 1989) and the USSR (18 December 1989) on the other.

6. The year 1989 also witnessed the entry into force of the US-Canada Free Trade Agreement and a strengthening of co-operation between various sub-regional economic groupings. In December 1989, the European Community (EC) and the European Free Trade Association (EFTA) agreed to negotiate a new agreement aimed at the creation of a European Economic Space comprising the eighteen countries. Negotiations will begin in the first half of 1990, although the deadline for their conclusion has not been set. The aim is to extend to EFTA countries the free flow of goods, services, capital and people which the European Community is in the process of establishing among its own member countries and institutional arrangements. Co-operation will also cover such fields as research and development, the environment, education, working conditions, consumer protection, small- and medium-sized enterprises and tourism. Co-operation has already begun in these areas, and the 1990 European Year of Tourism, for example, is one joint EC-EFTA effort.

7. East-west industrial co-operation grew dramatically in 1989. By the end of that year, the total number of industrial co-operation contracts concluded by enterprises from the European CMEA countries and Yugoslavia with their western counterparts is estimated to have reached about 5200. Of these, some 3350 were joint venture contracts. In the European CMEA countries, the joint venture is now the most frequent and fastest growing form of industrial co-operation.

8. The data on industrial co-operation contracts (other than joint ventures) available to the secretariat and contained in its industrial co-operation Register show that the number of such contracts continued to rise in 1989 and amounted, by the end of that year, to 1850, as compared with 1728 a year earlier.

9. In the last two years, industrial co-operation activities have tended to concentrate in manufacturing, within which the engineering branches, transport equipment, chemicals, rubber and plastics manufacture have been most strongly represented.

10. Joint ventures excluded, licensing has become the predominant type of contract, notably in the CMEA countries (40% of the contracts). It is followed by co-production and specialization, and supply of plant or equipment. Other forms of industrial co-operation are of minor importance.

ECE activities in trade and industrial co-operation

11. Activities in the field of trade continue to be of fundamental importance in ECE work. In 1989, the Commission reaffirmed that benefits for world trade would flow from the universal application of UN/EDIFACT and recommended to the Economic and Social Council that it consider a project for interregional co-operation aimed at promoting the world-wide application of UN/EDIFACT (see also E/ECE/1216). Through regular meetings of Government Officials Responsible for Standardization Policies (its first Meeting of Experts was held in May 1989), the Commission also contributes to the prevention and/or reduction of technical barriers to east-west trade and industrial co-operation (see also E/ECE/1219).

Activities of the Committee on the Development of Trade

(a) Trade policy, trade promotion and related issues

12. At the thirty-eighth session of the Committee, several delegations noted that the changes taking place in many countries of the ECE region held out the possibility of a real improvement in the political and security aspects of relations between countries of the ECE region. Some delegations noted, however, that the economic restructuring programme, currently underway, involved difficult and fundamental decisions. The results would not come rapidly, but would require a long-term commitment to basic reforms.

13. Western assistance to eastern Europe is taking various forms, including grants, new multilateral and bilateral credits, support for direct investment, technical assistance, food aid and improved access to western markets and technology.

14. Measures on trade liberalization concern reduction of tariffs and the removal of certain non-tariff obstacles facing Hungarian and Polish exports. Hungarian and Polish exports already fall under the Most Favoured Nations (MFN) clause in the EC and most other western countries; recently the United States accorded Hungary MFN status on a permanent basis. The Group of 24 countries have agreed to General System of Preferences (GSP) treatment for Hungary and Poland, with the EC announcing that it will apply its regime from January 1990. However, goods subject to sectoral agreements - textiles, shoes, agricultural produce and some special steel products - are excluded from the regime. The EC agreed to remove all discriminatory (specific) quantitative restrictions by the beginning of 1990, a move originally envisaged for 1994 and 1995 in its bilateral co-operation agreements with Poland and Hungary, respectively. Subsequently the EC proposed to remove all remaining quantitative restrictions for a period of one year, except on products subject to sectoral agreements.

15. The EC and other countries plan to set up a European Bank for Reconstruction and Development to provide financial assistance to eastern Europe. To date, western assistance, particularly financial aid, has been heavily concentrated on Poland and, to a lesser extent, on Hungary, both of which have formally requested external support for the transformation of their economies. Precise figures of total commitment of financial assistance are difficult to determine precisely because of the large number of proposals, the rapid evolution of donor Government views and the possibility of double counting. In November 1989, the ECE secretariat estimated that financial commitments made or being considered by the Group of 24 to Hungary and Poland amounted to $4-5 billion, most of which will become available in 1990 and would be spread over a number of years.

16. Since then further financial assistance has been announced. In January, the Prime Minister of Japan announced an aid package of $1.2 billion for Hungary and Poland. This included a contribution equivalent to $150 million to the $1 billion currency stabilization fund being established to support Poland's efforts to make its currency partly convertible. This fund is to operate for one year initially but may be renewed, and may be used by Poland's central bank to intervene in currency markets to support the new rate for the zloty. The World Bank stated in December 1989 that it was prepared to lend Poland $1.67 billion, though these loans would be dependent on support from the commercial banks, the IMF and the Paris Club of government creditors. The EC, which is co-ordinating the western aid effort to eastern Europe, announced in December 1989, that a further ECU 200 million grant in food aid was planned for Poland, following ECU 360 million pledged in 1989. All Group of 24 countries will contribute to this aid programme.

17. In December 1989, the Federal Republic of Germany announced an additional DM 3.5 billion (just over $2 billion) in credit guarantees to support the economy of the German Democratic Republic. The Federal Republic of Germany has also announced that it will provide DM 100 million annually to improve the German Democratic Republic's posts and telecommunications.

18. The Committee considered a study prepared by the secretariat analysing recent developments and prospective trends in east-west trade in services. It invited the secretariat to submit, at its thirty-ninth session, a note on the efforts required by ECE member countries to extend and improve the existing database on east-west service transactions.

19. Compensation trade in the ECE region was discussed by the Committee on the basis of a secretariat Note describing the result of a survey it conducted in 1989 on countertrade as it affects small- and medium-sized enterprises in the ECE region. The Committee decided to convene in 1990 a special meeting of experts, both on governmental and non-govenmental levels, to consider the results of the survey as well as of the study submitted in 1988 on the impact of east-west compensation trade on small- and medium-sized enterprises in the ECE region.

20. With respect to development of market information, marketing techniques and improved business contacts, the Committee considered the outcome of the Seminar on Leasing of Industrial Rquipment in East-West Trade which was held in 1989. At the invitation of the Government of Portugal a seminar on market

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perspectives and business opportunities will be held in Lisbon in the Spring of 1991. The Committee also invited the secretariat to prepare for the thirty-ninth session a note summarizing the work of the ECE on the industrial co-operation database, including joint ventures, and make suggestions for further activities in this field.

21. As regards trade problems specific to the member countries of the ECE which are developing from the economic point of view, the Committee considered a Note by the secretariat on "Policy measures that could provide favourable commercial treatment to member countries which are developing from the economic point of view" (TRADE/R.552). The Committee agreed that proposals for further studies would be made by concerned member countries and by the secretariat at its thirty-ninth session, taking into account comments made by delegations at its thirty-eighth and previous sessions.

(b) Industrial co-operation

22. The publication of a quarterly bulletin entitled "East-West Joint Venture News" commenced by the secretariat in 1989, met with a favourable response from delegations of member Governments and representatives of the business community. Three issues were published during that year.

23. The Committee took note with satisfaction of the Report of the Meeting of Experts on East-West Joint Ventures which was held in Genoa (Italy) in 1989 (TRADE/AC.23/2), as well as of the publication in 1989 of that part of the Guide on legal aspects of new forms of industrial co-operation which deals with east-west joint ventures.

24. The Committee invited the secretariat to prepare for the thirty-ninth session a study on the conditions for promoting direct foreign investment, including special economic zones, joint ventures and other forms of industrial co-operation in the ECE region. The Committee also agreed that it would be desirable to convene a seminar on the "Management of joint ventures and industrial co-operation projects" in which managers and experts involved in such projects could present and discuss problems and solutions in this area and asked interested delegations in co-operation with the secretariat to present a specific proposal in this regard to its thirty-ninth session in 1990.

25. In 1988, the total number of joint ventures registered in the European CMEA countries and Yugoslavia had risen by 550, from 400 to 950. Several countries - Bulgaria, Czechoslovakia, Hungary, Poland, the Soviet Union, and Yugoslavia - further liberalized their joint venture regulations in that year.

26. The year 1989 witnessed a continuing acceleration in the registrations of joint ventures and wholly foreign-owned enterprises. The secretariat estimated that by the end of that year, the total number of wholly or partly foreign-owned enterprises in the European CMEA countries (i.e. excluding Yugoslavia) reached almost 2600, as compared with 562 in the beginning of 1989. Almost half of the growth was attributable to the Soviet Union. Two other countries, Poland and Hungary, accounted for the other half of the growth in such enterprises in the CMEA area. At the same time, in Yugoslavia, the number of joint ventures and wholly foreign-owned enterprises increased from 368 to 750.

(c) Facilitation of international trade procedures

27. An account of progress made and results achieved during 1989 by the Working Party on Facilitation of International Trade Procedures was examined by the Committee. Delegations expressed support for UN/EDIFACT work carried out under the auspices of the Committee and noted the great usefulness of this work for all member countries of the Commission. The adoption for trial use of messages reated to customs operations was particularly welcomed. The Committee requested the secretariat to prepare a description of the permanent staff resources that would be required to develop and maintain UN/EDIFACT and to submit this description to the thirty-first session of the Working Party on Facilitation of International Trade Procedures (16 March 1989), so that the Sessional Committee at the forty-fifth session of the Commission could subsequently examine the implications of these requirements.

(d) International contract practices in industry

28. At its thirty-fourth session (June 1989) the Working Party on International Contract Practices in Industry considered the text of that part of the Guide on legal aspects of new forms of industrial co-operation which deals with international counterpurchase contracts. At its thirty-fifth session (November 1989), it agreed on the final version of the text. The Working Party also considered all paragraphs of that part of the Guide on legal aspects of new forms of industrial co-operation which deals with international buyback contracts.

29. The Committee on the Development of Trade decided that the final version of the document dealing with counterpurchase, should be published as soon as possible as a separate publication. Accordingly, a volume entitled "International Counterpurchase Contracts" is expected to be published in the Spring of 1990.

30. At its thirty-fifth session the Working Party also decided to take up as the topic of its next guide "Legal aspects of financing the new and developing forms of east-west trade" (preliminary title). The Working Party further agreed that the work on that guide be started with the elaboration of a part dealing with the legal aspects of financial leasing. It requested the secretariat to prepare for the thirty-sixth session of the Working Party (June 1990) an annotated outline of that part of the new guide which deals with the legal aspects of financial leasing, B.O.T. (Build-Operate-Transfer) and franchising.

Activities of the Commission's other Principal Subsidiary Bodies

31. Sixty-four trade-related projects are being carried out by other Principal Subsidary Bodies. The majority of these projects relate to trade trends, policies and problems, market information, industrial co-operation, and international trade procedures and practices in particular economic sectors, such as agricultural or timber products, or chemicals. Some of these projects are carried out in close co-operation with the Committee.